

Message Text

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ACTION NEA-10

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FM AMEMBASSY COLOMBO

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INFO AMEMBASSY NEW DELHI

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SUBJ: INITIAL PUBLIC REACTION TO THE NEW BUDGET IS MIXED

REF: COLOMBO 4452

1. SUMMARY: PUBLIC REACTION TO THE FINANCE MINISTER'S BUDGET SPEECH (REFTEL) HAS SO FAR BEEN MIXED. THE BUSINESS COMMUNITY AND THE UPPER MIDDLE CLASS GENERALLY FAVOR THE REDUCTION OF RESTRICTIONS AND CONTROLS ON THE ECONOMY, AND BELIEVE THE REMOVAL OF RICE AND SUGAR SUBSIDIES FOR HALF THE POPULATION IS A STEP IN THE RIGHT DIRECTION. THE POOR, WHO WILL RETAIN MOST OF THE SUBSIDIES AND WILL BENEFIT FROM A PAY RAISE OR AN UNEMPLOYMENT DOLE ALSO SEEM SATISFIED. IT IS THE BLUE COLLAR WORKER AND THE LOWER MIDDLE CLASS CLERK, HOWEVER, WHO WILL FEEL THE ECONOMIC PINCH THE MOST AND WHO HAS STARTED TO COMPLAIN. THE BUDGET WAS A VERY COMPLEX DOCUMENT WHICH CLEARLY REFLECTED THE INPUT OF CONFLICTING ECONOMIC PHILOSOPHIES. AS MORE AND MORE PEOPLE FIGURE OUT WHAT THE BUDGET MEASURES REALLY MEAN FOR THEM, OPPOSITION TO THE CUT IN FOOD SUBSIDIES IS LIKELY TO GROW.

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2. BUSINESS

THE REACTIONS OF VARIOUS TRADE ASSOCIATIONS AND OF INDIVIDUAL BUSINESSMEN TO THE BUDGET HAVE BEEN VERY FAVORABLE WITH ONLY A FEW MINOR COMPLAINTS. THE BUSINESS COMMUNITY IS DELIGHTED WITH THE PROGRAM OF TRADE LIBERALIZATION AND THE REDUCTION OF EXCHANGE CONTROLS. EVEN THE DEVALUATION OF THE RUPEE IS SEEN AS A POSITIVE MOVE WHICH WILL HELP PROMOTE NON-TRA-

DITIONAL EXPORTS. THE REDUCTION OF THE BUSINESS TURNOVER TAX (BTT) FROM 9 TO 25 PERCENT TO A UNIFORM RATE OF ONE PERCENT IS SEEN AS A STIMULUS TO DOMESTIC TRADE. THE USE OF ACCELERATED DEPRECIATION AS AN INCENTIVE TO HELP SMALL INDUSTRY, HOUSING, AGRICULTURE, AND FISHERIES IS EXPECTED TO SPUR INVESTMENT AND CREATE NEW EMPLOYMENT. THE PROPOSED WITHDRAWAL OF RICE AND SUGAR SUBSIDIES ON JANUARY 1, 1978 FOR FAMILIES EARNING OVER RS. 3,600 (\$225 AT THE CURRENT EXCHANGE RATE OF RS. 16 PER US DOLLAR) PER YEAR IS HAILED AS A LONG OVERDUE MEASURE TO BEGIN SHIFTING RESOURCES FROM CONSUMPTION TO INVESTMENT. (A DETAILED SEPTEL ON THE PROPOSED SUBSIDY SYSTEM IS IN PREPARATION.)

3. THERE WERE A FEW ASPECTS OF THE BUDGET, HOWEVER, THAT DID NOT PLEASE BUSINESSMEN. THE INCREASE IN THE MAXIMUM INCOME TAX RATE FROM 50 TO 70 PERCENT, THE RS. 3,500 (\$218.75) CEILING ON MONTHLY SALARIES, AND THE SHARP INCREASE IN EXPORT TAXES, PARTICULARLY ON TEA, WERE SHARPLY CRITICIZED. SEVERAL BUSINESS REPRESENTATIVES POINTED OUT THAT HIGHER TAXES AND THE SALARY CEILING, TO THE EXTENT IT CAN BE ENFORCED, WILL JUST ADD TO SRI LANKA'S "BRAIN DRAIN" PROBLEM BY FORCING PROFESSIONALS TO LEAVE THE COUNTRY FOR BETTER OPPORTUNITIES ABROAD.

4. LABOR

AS MIGHT BE EXPECTED, A BUDGET WHICH THE BUSINESS COMMUNITY GENERALLY APPROVES FOUND LESS FAVOR WITH LABOR LEADERS. THE LIMITED OFFICIAL USE

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LEFTIST UNIONS WERE PARTICULARLY CRITICAL, CALLING THE BUDGET PROGRAM "ECONOMIC CHAOS" AND "A HIT BELOW THE BELT" FOR THE WORKING CLASS. ONE LEFTIST LABOR LEADER CONCLUDED THAT THE GOVERNMENT HAD "SUCCUMBED TO THE DICTATES OF THE WORLD BANK AND INTERNATIONAL MONETARY FUND." AS MOST UNION MEMBERS HAVE FAMILY INCOMES OVER RS. 3,600 A YEAR, THEY WOULD LOSE THE RICE AND SUGAR RATIONS. THE UNION LEADERS COMPLAIN THAT THE 25 PERCENT WAGE INCREASE UP TO RS. 50 (\$3.12) PER MONTH, WHILE A DESIRABLE MOVE, WOULD NOT MAKE UP FOR THE LOSS OF THE SUBSIDIES. (AT CURRENT PRICES, THE EMBASSY ESTIMATES THAT A FAMILY OF FIVE WOULD HAVE TO PAY AN ADDITIONAL RS. 78 (\$4.88) PER MONTH TO MAKE UP FOR THE SUBSIDY LOSS -- SEE SEPTEL.) SOME SUGGESTED THAT THE POVERTY LINE CUTOFF SHOULD BE RAISED TO RS. 6,000 (\$375) PER YEAR. ALTHOUGH CRITICAL OF THE CUT IN SUBSIDIES, THERE WAS A GRUDGING RECOGNITION THAT SUBSIDIES WAS A BURDEN ON THE ECONOMY WHICH INHIBITED DEVELOPMENT. THE DEVALUATION WAS CRITICIZED AS A SOURCE OF SERIOUS INFLATION. WHILE APPROVING THE INCREASES IN THE GUARANTEED PRICE FOR PADDY FROM RS. 33 (\$2.06) TO RS. 40 (\$2.50) PER BUSHEL, UNION LEADERS EXPRESSED CONCERN ABOUT THE INFLATIONARY IMPACT THIS WOULD HAVE ON OPEN MARKET RICE PRICES.

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5. THE MORE MODERATE UNION LEADERS AGREED THAT THE MAJOR BURDEN OF THE NEW BUDGET WILL FALL ON THE BLUE COLLAR AND LOWER-MIDDLE CLASS WHICH COLLAR WORKER, BUT THEY SEEMED WILLING TO GIVE THE GSL THE BENEFIT OF THE DOUBT FOR THE TIME BEING. THERE WRE MIXED VIEWS ON THE MONTHLY RS. 50 "DOLE" TO THE UNEMPLOYED. OPINIONS RANGED FROM CALLING IT A "MOST COURAGEOUS AND THOUGHTFUL STEP" AND ASKING FOR AN INCREASE IN THE AMOUNT, TO CONCERN THAT SRI LANKA WAS STARTING DOWN THE BRITISH ROAD TO "ECONOMIC CRISIS", TO ONE COMPLAINT THAT THE WORKING MAN WOULD NOW BE SUPPORTING THE UNEMPLOYED. THERE WAS GENERAL AGREEMENT THAT THE REDUCTION OF THE BTT AND THE INCREASE IN THE INTEREST THE GSL PAYS ON EMPLOYEES' PROVIDENT FUND BALANCES WOULD BE HELPFUL TO WORKERS. MOST EXPRESSED CONCERN THAT THE PRIVATE SECTOR WOULD USE THIS OCCASION TO RAISE PRICES WITHOUT JUSTIFICATION AND CALLED ON THE GSL TO TAKE ACTION. ALL FELT THE GSL WOULD HAVE SERIOUS PROBLEMS IN ADMINISTERING THE UNEMPLOYMENT DOLE AND IN DETERMINING WHO WAS ELIGIBLE FOR RICE AND SUGAR SUBSIDIES. (A MORE DETAILED REPORT ON LABOR REACTION FOLLOWS SEPTTEL.)

6. PRESS
THE ENGLISH LANGUAGE DAILY PRESS IN COLOMBO HAS BEEN TREATING THE BUDGET VERY FAVORABLY IN EDITORIALS AND GENERAL REPORTING.
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ALL THE PAPERS, HOWEVER, HAVE BEEN CARRYING "MAN-IN-THE-STREET" INTERVIEWS BOTH PRO AND CON. THE LEFTIST VENACULAR PRESS, ON THE OTHER HAND, HAS ATTACKED THE BUDGET, PARTICULARLY THE PROPOSED CHANGE IN FOOD SUBSIDIES. THE LEFT NOW HAS AN ISSUE WITH WHICH TO BERATE THE GOVERNMENT.

7. OTHERS

REACTIONS OF INDIVIDUALS HAS VARIED BASICALLY BY ECONOMIC CLASS. AS INDICATED ABOVE, BUSINESSMEN AND THE UPPER MIDDLE CLASS ARE ALMOST UNIFORMLY IN FAVOR OF THE BUDGET AS A WHOLE. PEOPLE BELOW THE RS. 3,600 PER YEAR POVERTY LINE ARE ALSO GENERALLY SATISFIED WITH THE NEW MEASURES SINCE THEY WILL RETAIN THE RICE RATION AND PART OF THE SUGAR SUBSIDY (FOR CHILDREN UNDER 12) AND WILL BENEFIT EITHER FROM THE SALARY INCREASE OR THE UNEMPLOYMENT PAYMENT. IT IS THE PEOPLE IN BETWEEN THESE TWO GROUPS WHO ARE COMPLAINING. AS MORE AND MORE REALIZE WHAT THE LOSS OF THE RICE AND SUGAR SUBSIDIES MEANS FOR THEM, AND WHEN THEY SEE PRICES BEGIN TO CLIMB, PRESSURES WILL INTENSIFY FOR THE GSL TO MAKE MORE CONCESSIONS BEFORE THE SUBSIDY CUTS TAKE EFFECT ON JANUARY 1.

8. THE EMBASSY WILL CONTINUE TO MONITOR PUBLIC REACTION AND WILL REPORT FURTHER.

WRIGGINS

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